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Russia and the West

The Consequences of Renewed Rivalry

Highlights from the workshop

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Russia and the West: The Consequences of Renewed Rivalry

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The workshop and its objectives

On 19 May 2015, the Canadian Security Intelligence Service (CSIS) hosted a workshop examining various political and security issues related to Russia as part of its Academic Outreach (AO) program. Held under Chatham House rule, the event provided an opportunity for the presenting experts and other participants to reflect on the growing tensions between, on the one hand, Russia, and on the other Western countries and their allies.

This workshop attracted renowned researchers from Canada, the Unites States and Europe. The following report contains some of the main workshop findings and reflects the views of those independent experts, not those of CSIS.

The AO program at CSIS, established in 2008, aims to promote dialogue between intelligence practitioners and leading specialists from a wide variety of disciplines and cultural backgrounds working in universities, think-tanks, business and other research institutions in Canada and abroad. It may be that some of our interlocutors hold ideas or promote findings that conflict with the views and analysis of the Service, but it is for this specific reason that there is value to engage in this kind of conversation.

Executive summary

Executive summary

The return of Vladimir Putin to the presidency of Russia in 2012 ended attempts to define areas of cooperation between Russia and the West. Instead of emphasising diplomatic initiatives, Putin introduced a comprehensive narrative of grievance which rejected post-World War Two security principles, revived traditional Russian imperialistic themes, and promoted an aggressive interpretation of Russia's status as the successor regime to the USSR.

The Putin narrative asserts Russia's primacy as a global power with a right to be involved in the resolution of all global disputes. It contends that the peripheral countries of the former Soviet Union have limited sovereignty, and that Western interest in the economic and political development of those countries interferes with Russia's legitimate security interests. Reinforcing this concept of the limited sovereignty of its neighbours, Moscow has asserted that it has a sacred duty to protect Russian minorities outside its borders. The 1990s, seen by the West as a period of positive engagement, was for Putin a decade of destructive chaos, never to be repeated.

Within Russia, Putin has instituted an authoritarian government and economic structure. Internal pro-democracy protests have been dismissed as the result of foreign interference and manipulation. Furthermore, Western countries do not represent desirable progress, but a decadent culture inferior to that of Russia.

Western countries reject this narrative and see it as a transparent rationale for breaching the sovereignty of neighbouring states in violation of international law

Russia's actions in Ukraine

Russia's actions towards Ukraine are justified by this narrative, which puts Ukraine within Russia's sphere of influence. Because of its economic potential, Ukraine is viewed as critical to the development of the Eurasian Union. Politically, since the post-USSR Ukraine has had the same kind of autocratic and corrupt regime as Russia itself, Putin cannot afford to see Ukraine emerge as a true democracy, prospering because of its connections with the European Union. As the possibility of this scenario emerged with the fall of the government of Viktor Yanukovych, Putin took

aggressive action, seizing the Crimea and promoting the incursion into the Donbas region—actions designed to permanently destabilise Ukraine.

Action against Ukraine led to the emergence of a hybrid, or "non-acknowledged", war. Special Russian forces facilitated the unopposed annexation of Crimea, as Putin later admitted. In the Donbas region, where the incursion met with strong resistance, Moscow has used a mix of locally organised militias, militias organised from within Russia, private military companies (PMCs) and official forces—including special and elite units.

This mix of forces has strategic and tactical significance. Militias and PMCs are harder to control, but easy to disavow when Russia chooses to deny involvement in the incursion. Official forces are easier to coordinate and effective, but their involvement is more obvious, limiting strategic flexibility and deniability for propaganda purposes.

The forces already in action are only part of the strategic mix. Moscow implies that other forces could be used if Russia is provoked, and references to the possible use of nuclear weapons are designed to unsettle Western calculations. Further, Russia uses provocative actions by long-range bombers and submarines to heighten tensions and uncertainty about Russia's perceived options.

The reaction

Ukrainian forces are fighting the militias and their allies but are handicapped by a very low level of basic training, dated equipment, poor logistics and government corruption. Despite the Minsk II agreement, intended to end fighting, combat continues, but at a lower level.

The United States, European countries and close allies have imposed a moderate level of sanctions on Russia. German Chancellor Angela Merkel has strongly asserted the need to react decisively to Russia's rejection of the post-1945 security settlement. For the moment the sanctions regime is holding, but European countries are unlikely to increase their intensity and are under significant pressure to loosen them. Russia is directing money to European opposition parties of the far left and far right to encourage an acceptance of Russia's viewpoint.

The European Union (EU) is in the middle of a geopolitical crisis, to which it has difficulty responding coherently. By contrast, NATO's strategic stance is explicitly geopolitical, and it has been reinforcing its ability to resist further Russian aggression. One step has been to place tripwire forces in the Baltic republics.

Despite the economic and political penalties Russia has had to pay, it has achieved some of its goals. Ukraine has been destabilised and economically undermined by Russian actions. NATO is not pursuing closer ties with the peripheral republics, and the EU has pulled back from engagement activities.

However, while Russia's actions drive the confrontation on its Western borders, it does not control all the possibilities for violence. Russia could face a renewed internal insurgency in the North Caucasus if fighters returning from Syria bring new tactics and new aggressiveness to the previously pacified region.

Economic consequences for Russia

Natural resources wealth, particularly oil and gas, enabled Russia to build up a very positive current account surplus, but even before the imposition of sanctions and the fall in oil prices there were critical weaknesses in the economy. Putin's top-down economic approach, essential to the maintenance of his oligarchic support base, created micro-economic inefficiencies. Businesses not benefiting from special privileges suffer from poor infrastructure, weak property rights, political pressure, manipulated markets, inefficient government and pervasive corruption.

Sanctions and the drop in oil prices have led to a dramatic fall in GDP and the increased volatility of the rouble. The economy has recovered to a limited extent, but will be in moderate recession with very low growth rates into the indefinite future. Putin is in an impasse: he does not have a coherent economic policy, and he cannot restructure the economy without undermining his own support base. Capital flight, which began before the current rouble crisis, has continued, reflecting a lack of confidence in Russia's economic prospects by both foreign and domestic investors.

Russia has reached out to China as a new partner, but the 2014 Gazprom deal made it clear that China will profit from Russia's need for new friends.

Since 1990, economic growth and popular support for Russia's presidents have tracked very closely together. The decline in the Russian economy broke this separation as Putin's popularity fell, while his actions against Ukraine have pushed his popularity to heights well above those tied to economic trends. This is not sustainable, and the correlation between economic growth and presidential popularity will, at some point, reassert itself.

The political context

Autocratic rule can be military, one-party or "personalist". The latter model, adopted by Putin, is the least stable and the most vulnerable to sudden shifts in popular support. In addition to being vulnerable to a loss of popularity as the economy weakens, Putin's other sources of strength are not absolutely reliable.

Putin has favoured the security services, which in return have supported his autocratic rule. However, the intelligence and security services are said to be riven by corruption, cynicism and tactical myopia. They tell Putin what he would like to hear, but are not giving him the more strategic advice which would require considering vulnerabilities and failures. They aid a misunderstanding of Western intentions and capabilities and tend not to provide alternative interpretations of events or unwelcome facts. The loyalty of the security agencies cannot be absolutely guaranteed. A coup against Putin could not succeed without the participation of the security apparatus, but it would likely not be led by them either.

The fact that there is a relatively small group close to Putin has important consequences for observers. It has become increasingly difficult to gather reliable information about Moscow's intentions. Russians are fearful of speaking to outsiders and access by commentators to the small number of insiders is limited. Even if more access and openness were possible, it is doubtful that anyone knows what Putin will do next, and important decisions may simply be the result of opportunistic improvisation.

Transition to an unstable future

The respective world-views of Russia and the West do not appear compatible, and confrontation through Putin's term and beyond will continue.

On the Western side, the question is whether Europe will remain united in rejecting Vladimir Putin's Russia-centric narrative and its geopolitical consequences. So far the unity is holding, despite Moscow's active measures to fracture it. But the sanctions are costly to Western business and economies generally. A repetition of the Minsk negotiation process, which made important concessions to the militias at the cost of Ukrainian sovereignty, would signal a readiness to make incremental concessions in the face of constant Russian pressure.

Looking ahead, there are several different courses events could take in Ukraine.

- The first scenario is a *frozen conflict*, with no further negotiations, and no reintegration of the Donbas region with Ukraine. This unlikely scenario would impose more costs on Russia than on Ukraine. Russia would be left with sanctions and the costs of administering the region. Supported by increased aid flows, Ukraine could move forward on national reform and possibly begin to draw closer to the EU de facto.

- A second scenario, *implementation of the full Minsk II agreement*, is also unlikely, as the loss of sovereignty by Ukraine was very significant, and it has therefore not implemented parts of the agreement.

- The third scenario, *further escalation*, depends on how Putin assesses the determination of the West to resist further Russian aggression. In this scenario Russian pressure might be met with a series of new Minsk agreements, each further undermining Ukraine's position. Ultimately Russia would demand a "new Yalta"—an acceptance of its claims to domination of its neighbours—but there is no chance Western countries would accept this.

- Finally it is possible that a *mutually acceptable settlement* could be reached, but so far the pathway to this outcome is not evident.

While NATO is not entering directly the Ukrainian theatre, it has deployed assets to prevent a penetration. Russia's provocative use of air and sea assets may lead to a crisis, even without hostile ground actions against NATO members. Russia itself could face renewed instability in the North Caucasus. The costs of modernising Russian military forces may be difficult to sustain.

For Putin the Ukraine incursion has produced domestic political gains, but with significant direct and indirect economic costs mounting to hundreds of billions of dollars. These costs and the sanctions will continue to drastically limit economic growth and therefore impose standard-of-living declines on the Russian population. While Putin remains very popular as the champion of a nationalistic surge, he must deal with the multiple expectations he has generated.

Predicting the future of Russia's relationship with the West is becoming increasingly difficult. As stated earlier, the Kremlin's inner circle is small and access for observers and diplomats is limited. Putin has created an alternate reality for Russians, and he himself has little access to different views and information sources. Russians are caught in a quasi-permanent recession and are afraid to express their views, and polling organisations are finding their independence under threat.

Multiple critical unknowns compound the difficulties for the West in attempting to understand Russia's future intentions.

Russia's Self-Image and its Consequences

Russia's Self-Image and its Consequences

The underlying assumptions made by Russians as to their country's place in the world and its governance are of critical importance. Russian nationalists might dispute the right or ability of foreigners to interpret them. But one has to try.

Some general propositions

There is a clear historical link between Russia's top-down form of government and Moscow's imperial record. Weaken the rule of the Kremlin, and Russia shatters. That understanding includes the presumed right and need to dominate neighbouring regions, whether or not these are formally included in the territories directly ruled from the Kremlin.

Unlike other states emerging from the former Soviet Union (FSU) Russia did not see itself as having been in some sense liberated. It was, rather, the successor to the Soviet Union with the right to be treated as such by the outside world—and by the United States in particular. That soon came to mean that a multipolar world with Moscow as a centre had to be established in place of what was judged by most Russian policy-makers to be unipolar dominance by Washington.

> *The relentless propaganda of the past three years has played into an abiding sense of Russia's nature being both special and distinct from that of the West.*

The Yeltsin period saw a partial attempt with Western backing to force through a transition to an accountable form of government. Part of that included a brief period of re-assessing the Soviet past. Without completing that re-assessment, Russia could not and cannot reinvent itself. What we have today is a set of legally protected myths which glorify the past. Stalin and the Great Fatherland War (1941-1945) are its core elements, and Russia's dependence for its survival on a strong centralised state is the key lesson. This 2015 Victory Day Red Square Parade is meant to drive the message home.

Putin claims that he has restored the state as Russia's decisive actor after the phase of dangerous instability of the 1990s. But the reality of rule by a narrow, self-interested and in part nervous cabal is by now imperfectly concealed. Russia's economy has run into trouble. The Kremlin has buttressed its position by stressing the need for Russia to defend itself against foreign and domestic enemies.

There is widespread but not uniform acceptance among the Russian people of the need for a strong centralised state. There is also a tradition of the people surprising their rulers, as witnessed during the 2011-2012 street protests. The majority at present may prefer to leave political decisions to the Kremlin, and uncertainties as to who or what might follow Putin strengthen that perspective. But Russian citizens' every day experience of the state nonetheless nurtures an intense distrust of its instruments.

The relentless propaganda of the past three years has played into an abiding sense of Russia's nature being both special and distinct from that of the West. The claim to a superior spirituality nevertheless masks an underlying feeling of inferiority. Talk of "Russian values" or a "Russian world" sounds good at first but neither slogan conveys the promise of answering the question that has plagued Russia since the Soviet Union began to disintegrate: what is Russia's informing purpose?

The Kremlin's perception of the outside threat

There is instability in plenty along Russia's southern borders, and reason to look askance at China's might. There has been no comparable threat from the West. Yet Russian decision-makers have insisted with increasing vehemence that their principal antagonist is indeed the West, and the United States in particular. A sense that the West was untrue to its proclaimed principles and neglectful of Russia's interests was present under Yeltsin, but has matured under Putin into a full-grown narrative of grievance comparable in its force to the stab-in-the-back legend that poisoned Germany between the two world wars. The charge sheet is familiar, its details open to question. But the dominant convictions in the Kremlin, which are shared by a substantial proportion of the wider population, are that: anything decided in the outside world without Russia is directed against Russia; others have to obey rules set by Russia, in particular in the 'near abroad';

and regime change is a threat held over Russia's head by the United States.

It is hard for Western observers to grasp the meaning of such hollow narcissism. It is not and can never be in the interest of any country to attempt to dismember Russia. Moreover, it is not in the power of the United States or anybody else to change the regime. Does Moscow really not understand why so many of its neighbours are afraid of it? Or is there some identifiable Western fault that can be corrected so that "normal business" can be resumed?

There is a view in the West that accepts the Russian proposition that the quarrel with the Kremlin over Ukraine is a contest between East and West in a Cold War mode. Russian policies have indeed provoked a concerted Western reaction. But the disagreement at the heart of the Maidan-Kyiv and Bolotnaya-Moscow tensions is one as to the proper form of government in the countries of the FSU and the right of their peoples to choose between them. The Minsk II agreement is inherently unstable. The logic of Russian policy is that the Kremlin should impose its rule by proxy on Kyiv, surely a stretch too far. That logic flows from Putin's choice in May 2012: to reject economic and by implication political reform; to repress opposition; and to embrace nationalism. In pursuing these ends he has further eroded the essential pillars of a state with a secure future—an effective institutional structure, the rule of law and accountability. The toleration or even endorsement of vigilante violence in Russia and Ukraine has further reduced the chances of Putin or his circle retreating towards more circumspect policies.

Future change?

Volumes have been written about Russia's preoccupation with the West, and more will follow. Eurasia is a fantasy riff on the subject. Russia in the 1990s was divided. Those who wanted it to become a "normal" country had European models in mind. Russia's present rulers choose to see the West as the defining "Other" for their country. They also crave its respect, a concept that would include Western fear of Russia. "The West" is a generalised idea, not just a set of particular Western nations and institutions. As such, it is by turns an aspiration, a rebuke and a challenge for Russian people and Russian rulers.

Putin's Kremlin is trying to force Russia into a mould that rejects its European heritage. Belligerent patriotism will be no compensation for present efforts to close the Russian mind. The next two years will be challenging for the regime, and for Russia.

Russia's Intelligence Community: Competence, Competition and Court Politics

Russia's Intelligence Community: Competence, Competition and Court Politics

Russia is heir to the Soviet Union's extensive and aggressive intelligence apparatus, and under Putin the intelligence community has recovered from the years of drift and decay of the 1990s. Fuelled by generous budgets, empowered by a president who regards them as the "new nobility" [1], driven by the demand for competitive advantage, Russia's array of intelligence agencies are now as active as at the height of the Cold War. Despite the perennial Russian challenges of corruption, clientelism and vicious inter-agency rivalries, they ought to be considered formidable assets. At the same time, the need to operate in a hyper-presidential political system, with an emerging ideology of "aggressively defensive nationalism" as well as the impact of turf wars within the community, severely limits their capacity to play a positive strategic role, rather than a tactical one. To be blunt, Putin gets the intelligence he wants now, not necessarily the intelligence he needs.

The Russian intelligence community

There are a dozen or so agencies which ought to be considered to constitute the Russian intelligence community. The most important are the Federal Security Service (FSB), primarily responsible for domestic security but also with a growing external role; the Foreign Intelligence Service (SVR); and the Main Intelligence Directorate (GRU), which is military intelligence. Beyond these, there is an array of agencies with narrower roles, from the Federal Anti-Narcotics Service (FSKN) to the Federal Guard Service (FSO). Most have descended from the Soviet KGB and have a variety of roles, scales and degrees of political autonomy. They share, though, some distinctive characteristics:

- An *overlap* of responsibilities to an extent unusual in the West, not least to encourage multiple and competitive perspectives. This is especially visible today in Crimea,

[1] A phrase used by Nikolai Patrushev, Putin's successor as head of the Federal Security Service (FSB) and now secretary of the Security Council. It is believed to illustrate accurately Putin's own views.

where the FSB, GRU, SVR and other agencies (including the MVD, or Ministry of Internal Affairs) all operate, often in parallel—or even at cross purposes;

- In part as a result, a propensity for *turf wars*, not just for funding and access to the president but for simple survival (in 2003, for example, the FAPSI technical intelligence service was disbanded and its assets apportioned among several rivals precisely as the result of such conflicts), as well as business opportunities;

- An emphasis on *active operations*: these are agencies designed and often encouraged to do more than just gather and analyse information. This has also led to a particular relationship with organised crime, regarded as an especially useful lever;

- A *"wartime" mindset* that emphasises a zero-sum vision of the world; assumes that Russia faces a serious, even existential threat; and instinctively assesses action to be better than inaction; and

- Endemic *corruption*, a product of a lack of effective and transparent oversight, a permissive environment, the ability to use both the information and coercive capacities at their disposal, and prolonged contact with criminals as assets.

Putin's boys

Overall, the Russian services have benefitted dramatically from President Putin's personal support and his style of governance, which emphasises covert over open-source information and sees in the intelligence agencies an asymmetrical asset to use against a richer and in many ways more powerful West. After the lean times of the 1990s, they have regained their old budgets and gained unprecedented freedom of manoeuvre.

> *To be blunt, Putin gets the intelligence he wants now, not necessarily the intelligence he needs.*

However, this necessarily comes at a cost in that they are expected to deliver. Between 2008 and 2013, for example, the GRU went through a period of serious decline, to the point that its existence

as a *main* directorate of the General Staff—a bureaucratic distinction on which a huge degree of prestige and autonomy rested—was in serious question. The reason was precisely that it was regarded as failing to deliver, not least in the 2008 war with Georgia, making it vulnerable to rivals both within and without the military. The annexation of Crimea and subsequent war in Ukraine, though, have seen the making of its triumphant return to favour—for now.

The upshot is that the Russian intelligence services are now in a strong but brittle position:

- They are in many ways *back at their peak*, having accomplished a massive and sustained expansion in their networks, and their operations have reached an almost unprecedented scale, tempo and aggressiveness;

- Their relative lack of institutional oversight, means that they have high degrees of *strategic and operational autonomy* so long as Putin believes them to be delivering;

- This has also contributed to a high level of *corruption and bureaucratic conflicts* within and between agencies, which can often only be resolved by heavy Kremlin pressure;

- However, they form a *questionable asset* precisely because of the degree to which institutional and personal interests depend on presidential favour; the current leadership in the Kremlin appears unwilling to hear hard truths, and the intelligence community seems unwilling to bring them up, too.

Beware what you wish for

How far has Putin developed intelligence assets that help him in his long-term strategy of creating a "sovereign" (as he defines it to mean essentially free from any external constraints), powerful and effective Russia? The irony appears to be that they are in many ways a problem rather than, as he believes, a solution:

- They are *technically highly capable*, even if sometimes badly tasked. A series of recent successes (and a fair number of failures) attest to the relatively good tradecraft and capacities of Russian intelligence;

- They now *reinforce Putin's assumptions*, not inform his world-view. When intelligence agencies become courtiers, they lose much of their value;

- They *reinforce the world's perception of Putinism*, as the very level of Russian intelligence operations also contributes to the problematic image of an aggressive and revisionist Russia; and

- They are *cynical opportunists* at home, loyal to themselves to a degree that often undermines their value to the Russian state. This also tempers any assumptions that the intelligence community should automatically and unreservedly be considered a bulwark of Putin's personal support.

Business and Politics in Russia

Business and Politics in Russia

With Russia's economy slowing and its policy-makers failing to provide credible policy responses, relations between business and the Kremlin are coming under increasing stress. Managing the political fall-out of a declining economy will be a major challenge for Moscow in the years ahead.

After more than a decade of enviable growth rates, the Russian economy has slowed dramatically. This economic decline has political ramifications due to the importance of approval ratings for President Putin's personalist style of rule and the historically tight link between presidential approval ratings and the underlying state of the economy. For almost twenty years, from 1992 to December 2011, the state of the economy was very highly correlated with them. Following the protests of December 2011, however, this correlation weakened as President Putin's ratings fell far more quickly than did economic growth. In the wake of the crisis in Ukraine, they soared again, while economic growth slowed, further weakening the relationship between the economy and the presidency. President Putin's skillful use of populism and nationalism has underpinned the recent rise in public approval. However, history and studies of presidential approval ratings in other countries suggest it will be difficult for him to maintain these high ratings should the economy continue to stagnate.

The economic slow-down presents an acute problem for the Kremlin's relations with business. Broadly speaking, we can consider two groups of businesses in Russia: those that enjoy close proximity to the Kremlin's inner circle and all others. Consider relations between unconnected firms and the Kremlin. Survey research of firm managers in 2008, 2011 and 2014 finds that President's Putin's ability to sway ordinary business to support a policy he proposed has declined considerably in this period. For example, a large survey of firms in Russia from late 2014 found that telling respondents that President Putin supported efforts to improve the business climate had little impact on respondents' evaluation of the business climate. A similar question asked in 2008 found that President Putin's endorsement increased support for the policy by almost 20 percentage points. This more subtle way of measuring the power of the President suggests far more equivocal support for him from unconnected businesses than elicit the usual questions of presidential approval. This ambivalence is not

surprising given that these unconnected firms rely more heavily on a good business climate and institutional quality than do connected firms and face a variety of informal taxes and costs from corruption, weak property rights and political pressure.

The Kremlin's turn to import substitution will produce some winners (food processing, steel processing) and losers among unconnected firms, but on balance it is unlikely to produce a sufficient increase in economic growth to stem the Kremlin's political problems.

Relations between connected firms and the Kremlin are more opaque and difficult to intuit, but the last year has seen more public disagreements with the government than during periods of high growth. For example, Rosneft's efforts to raise funds that helped spark the rouble's collapse in 2014 certainly drew the ire of the Kremlin. More recently, high-profile firms in the energy sector publicly opposed a procurement law with strong "buy Russian" clauses and managed to have the policy reversed; the open nature of the disagreement and the willingness of authorities to pass this legislation are notable.

> *The economic slow-down presents an acute problem for the Kremlin's relations with business.*

Other features suggest continued infighting among connected firms. Big business claims on the various national reserve funds are larger than can easily be accommodated, and inevitably pit connected firms against each other in a zero-sum game. Economic sanctions on some of the most important leaders of connected firms only add to the costs, inconvenience and uncertainty of doing business in Russia.

More generally, there seems to be considerable unease among connected and unconnected firms that the Kremlin has not had a clear economic development strategy since Putin returned to office in May 2012. One result of this unease is the continued high level of net capital flight. This is in part due to debt repayments and the end of quantitative easing in the US, but surely a large portion of the capital leaving Russia is also due to economic and political uncertainty. That capital flight reached USD 77 billion in the fourth quarter of 2014 in the face of the dual oil price and rouble shocks is understandable, but the USD 32 billion in capital flight in the first

quarter of 2015 suggests continued unease among capital holders in Russia.

In conclusion, Russia is facing steep economic challenges but not an economic collapse. The World Bank predicts that the Russian economy will shrink by around 3 percent in 2015, flatline in 2016, and grow by 1 percent in 2017. Should energy prices rebound, the political challenges of slow growth should ease in the short run. Moreover, autocratic governments have often muddled through periods of anemic growth, often by turning to nationalism and increased coercion, and this path seems the most likely for Russia in the coming years. But the political imperatives of nationalism and increased coercion are likely to work at cross-purposes with attempts to address underlying economic problems.

It is also important to note that in personalist autocracies such as Vladimir Putin's Russia, political change often happens unexpectedly, and this is often connected to the leader's approval ratings. Moreover, political change is a very high-stakes game in personalist regimes. From 1946 to 2006, only 30 percent of leaders who left office in personalist regimes did so by natural death or constitutional means, and 80 percent of such leaders faced jail, exile or death upon leaving office. The starkness of these figures suggests why business and politics in Russia are so high-stakes and fought with such fervor.

What Low Oil Prices and the Sanctions Could Mean for Russia in 2015

What Low Oil Prices and the Sanctions Could Mean for Russia in 2015

Russia went into the current crisis with a mixed economic report card. A decade or more of high oil and commodity prices and relatively prudent macro-management had resulted in a comparatively healthy static balance sheet. Russia benefited still from substantial budget and current account surpluses, and low debt ratio; its public sector debt-to-GDP ratio was only around 12% and its gross external debt-to-GDP ratio was less than 40%, both very low by international standards. The Central Bank of Russia (CBR), meanwhile, had foreign exchange (FX) reserves of over USD 500 billion at the end of 2013, making the sovereign a large net external creditor. The government also had a fiscal reserve equal to around 7% to 8% of GDP, a decade-long track record of paying, and full investment grade ratings.

Less encouraging was the fact that the real economy lacked substantive underlying and sustainable growth drivers. Thus, despite the fact that oil prices averaged around USD 100 a barrel over the previous three years, real GDP growth remained anaemic, at just over 1% in 2013. This low rate reflected fundamental and long-standing structural weaknesses in the Russian economy, related to the "power vertical"—a concept introduced by Putin to describe a top-down command structure centralised in the presidency and federal institutions—but specifically linked to a poor business and investment environment: poor protection of property rights, lack of rule of law, a capricious bureaucracy, red tape and corruption. In such a context, even Russians were not willing to invest in their own economy, capital flight flourished and growth lagged. The solution should have been a far-reaching structural reform agenda but this would have challenged the power vertical and entrenched interests, cornerstones of Putin's power. Instead, Putin chose to spur growth by focusing on the vision of a Commonwealth of Independent States (CIS) and Eurasian Union, a trading block designed to rival the EU, US and China. And this new focus has underpinned the more assertive Russian approach to Ukraine and the CIS since late 2013.

Sanctions and geopolitical risks associated with the crisis in Ukraine caused uncertainty over the outlook for the economy and increased capital flight and moderate downward pressure on the rouble. Western sanctions placed on longer-term,

capital-markets financing were introduced as Russia faced around USD 130 billion in external debt redemptions due in 2014. Refinancing these liabilities produced a shortage of dollar liquidity, accentuating pressure on the rouble. Initially, the CBR met this problem by allowing the rouble to weaken gradually within the already managed FX regime, and by moderately raising policy rates. All the above further stalled economic recovery and growth, with real GDP growth slowing towards zero in the second half of 2014. However, the sharp drop in oil prices provided the bigger shock later in 2014, which accentuated the existing dollar liquidity shortage, and produced uncharacteristic indecision and uncertainty in Russian policy circles. The CBR initially allowed the rouble to free float, but incomprehensibly failed to provide any "smoothing" through direct FX interventions and appeared unwilling to initially move to raise policy rates sufficiently to stabilise FX markets. As a result, the rouble went into free fall towards the end of 2014, causing panic and accentuating capital flight, provoking extreme daily moves in the FX rate. This FX panic, eventually met by aggressive policy-rate hikes by the CBR, proved highly disruptive to trade, investment and overall economic activity. Policy-rate hikes eventually restored some order, and the much-weakened rouble is now providing some underpinning to the balance of payments and growth.

There is currently much discussion as to the combined impact of sanctions and oil prices on the Russian economy, and whether these could trigger a deep recession and an eventual "crash". While accepting that the combined impact of sanctions (felt largely through the financing channel) and lower oil prices (oil accounts for around two-thirds of budget and current account receipts), will be painful, a moderate recession is more likely than a crash for a number of reasons:

- Sanctions levied have been light, or moderate, perhaps best described as 3 out of 10. For a more striking impact, they would need to be ramped up to a 6 or 7 out of 10, which seems unlikely even in the eventuality that the conflict escalate very significantly, due to political divisions in the West and fears over potential economic backdraft;

- Russia's balance sheet was strong at the start of the crisis, providing the economy a large degree of insulation;

- Macro management has improved, with the weaker rouble helping underpin growth and the balance of payments,

with policy-rate cuts providing added impetus to the economy;

- Oil prices have risen somewhat, helping to improve market expectations. The general view is that the Russian economy survived the worst that the West could throw at it, and might actually now see some benefits, for example through import substitution. There is now a lower base from which to provide some "bounce".

As a result one should expect real GDP growth to be on the upside this year, with a recession of 2% to 3% (not a drop of 10% as some have predicted). Inflation will be higher (10%—12% at the end of 2015, double the pre-crisis level), but likely slowing due to the recession and the stabilisation of the rouble. The budget deficit will be 3% to 4% of GDP, and the current account will be in surplus to the tune of USD 50 to 75 billion. The macro performance will likely be poor, but hardly catastrophic, and the economy will likely return to its longer-term trend towards decline, rather than collapse.

The above assumes no further deterioration in the geopolitical setting, or further sanctions.

In terms of the overall cost and loss from low oil prices and sanctions in 2015, real GDP growth is likely to be 3% to 4% lower than would otherwise have been the case, suggesting a loss of USD 65 to 70 billion in GDP. One could perhaps add in military and reconstruction costs for Donbas, and Crimea, which likely raise this loss to around USD 100 billion. Losses incurred in 2014, and on to 2016, could perhaps increase this to USD 150 billion, or over USD 1000 per capita. If one, however, includes the exchange-rate effect, GDP for Russia has dropped from USD 2.1 trillion in 2013 to perhaps USD 1.6 trillion, suggesting a much larger loss in the dollar wealth and buying power of some USD 500 billion.

> *... in 2015, real GDP growth is likely to be 3% to 4% lower than would otherwise have been the case ...*

Again, the combined impact of sanctions and lower oil prices has imposed a hefty cost on the Russian economy, likely making a difficult economic situation worse, but this is still hardly likely to be terminal to the Putin regime. Perhaps more importantly, one should not expect the regime's policy response to include reform

policies at the micro level, which could avert underlying, and pre-Ukraine crisis, decline. The response has been to restore macro-stability, to rebuild defences, but not to risk taking on the entrenched vested interests that underpin the regime in the energy sector, the military industrial complex, and among oligarchs—and this should not change.

Prospects for a Frozen Conflict in Eastern Ukraine: State of Play and Trends

Prospects for a Frozen Conflict in Eastern Ukraine: State of Play and Trends

The conflict in eastern Ukraine has not yet entered a phase in which freezing it becomes a sustainable option, let alone the best one for any of the parties involved. Above all, a frozen conflict model would work against Russia's apparent objectives. Unlike earlier cases in the post-Soviet space, separatist entities in Donbas would not provide the Kremlin with sufficient leverage vis-à-vis the authorities in Kiev; this is primarily due to the latter's staunch refusal even to consider the possibility that Russia might be part of a solution and negotiate on that basis. Control over territories in Ukraine's east does not give Moscow more say in Ukrainian domestic affairs. Freezing the conflict would release more internal and external resources for Ukraine's reforms, while putting considerable financial pressure on Russia to continue supporting the separatist areas. Those in turn would face the economic consequences of Western sanctions unless Ukraine's sovereignty n the area were fully restored. Most importantly, a frozen conflict would not stop Ukraine's integration with the EU along the lines of the existing bilateral Association Agreement. In other words, it would be easier for Ukraine to cope with and isolate itself from the frozen conflict, than it would be for Russia.

It is the capacity of Moscow to use military means and other methods of pressure to escalate the conflict at will that represents the most powerful instrument of Russian influence over Ukraine, and especially EU countries. Although one cannot predict with certainty whether or when large-scale hostilities could resume, there are no factors on the ground today that would structurally prevent a new 'hot' phase from occurring. On the contrary.

The Minsk II agreement of February 2015 has rewarded the separatists for restarting offensive operations. First, compared to the preceding agreement of September 2014, Minsk II has legitimised the take-over of significant territory (over 600 square kilometres). Second, it has imposed on Ukraine a large number of political conditions, which imply a partial loss of sovereignty (above all, a clause demanding Ukraine amend its constitution in the way agreed upon with the separatists). Third, the agreement has made the restoration of Ukraine's control over the state border in the conflict zone conditional on a full political settlement being reached beforehand. Furthermore, Ukraine's Western partners

have almost fully ignored a direct violation of Minsk II, namely the continued offensive by the separatists and their take-over of the strategic transportation hub of Debaltseve in the immediate aftermath of the deal. A precedent has thus been established that allows the separatists and Moscow to presume that the next round of hostilities, provided it will be victorious for them, will meet a similar outcome—the legitimisation of their own gains through a new agreement.

On the other side of the conflict, Ukraine's non-compliance with the agreement has now become glaringly obvious. Kiev's official position, at least since March 2015, has been that local elections in Donbas will be allowed to take place only after full restoration of border control to Ukraine, which contradicts the letter of the document. The result is that the opposing side can claim that Ukraine is to blame for the lack of progress. Many other instances of non-compliance with military and technical provisions of the document (eg, keeping heavy weapons deployed, not returning prisoners of war and hostages, violations of ceasefire) are seen on both sides and politically balance each other off, but Ukraine's general interpretation of its obligations is rather hard to sustain. Moscow will no doubt try to bring this to the attention of European representatives in the negotiations—in Berlin, Paris and Brussels—and its line of argument will find sympathisers in Europe.

International solidarity with Ukraine is not without its set of challenges. The issue is not the scale of the economic sanctions imposed on Russia for its actions against Ukraine's territorial integrity. Symbolic yet meaningless immediately after Russia's annexation of Crimea, over time the sanctions have become an important contextual factor indeed, affecting the attitude of Western business circles, whereas their potential tightening does constitute a deterrent of sorts. The problem is that EU decisions are not irreversible. On the contrary, an ongoing discussion is occurring among many EU states and in Brussels as to whether and when sanctions should be lifted, regardless of the situation on the ground. The EU likes to emphasise its unity over the Ukraine crisis, but in reality the consensus among member states as to the extension of sanctions is very fragile and may unravel as soon as summer 2015. Escalation of the conflict in January did not trigger any new European sanctions, which is indicative of the EU's reluctance to go any further.

Finally, the most important destabilising factor is the continuing weakness of Ukraine as a state. As long as the ability and willingness of the country's leadership to pursue reforms stay weak, including reforming the military, Ukraine will remain an attractive target for outside pressure from various directions. Corruption and lack of professionalism "in the background" will strongly affect troop morale. The state's dysfunction is hard to compensate for through patriotic mobilisation of the population, heroic effort of volunteers (who play an exceptionally and unnaturally large role in supporting the military) or Western assistance. At the same time, it has to be realised that progress with reforms might also increase the temptation to resume the conflict exactly to derail the process.

To sum up, the conflict in eastern Ukraine is still remarkably volatile, making it difficult to see clearly long-term prospects for it. Nevertheless, if a frozen conflict does not seem a very likely scenario, neither is escalation (is not) the only alternative.

Rather, two other possibilities are worth considering. One is the *de facto isolation of the conflict areas from the rest of Ukraine* and their growing, practical integration into Russia. Eastern Ukraine may in that sense come to resemble South Ossetia or Abkhazia, which would open the way for a formal recognition of the territories' independence by, or their incorporation into, Russia. Ukraine may not recognise such developments openly but it will accept it de facto and focus on protecting the territories it controls. In other words, incapable of reintegrating its eastern territories, Ukraine will be able to insulate itself from the worst effects of the conflict and refuse to compromise on matters of principle.

> *... the most important destabilising factor is the continuing weakness of Ukraine as a state.*

As was frequently and convincingly argued, Moscow seeks control over all of Ukraine and not just the Donbas region. For this reason, if that larger objective gradually proves unattainable, the Kremlin may choose not to bear the cost of maintaining separatist entities in the east. Reforms in Ukraine, together with unequivocal Western solidarity, may be the best way to change Moscow's cost-benefit analysis and thus contribute to the *settlement*, not just the freezing of the conflict.

In Military Terms: What the Modernisation of the Russian Forces Portends

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To understand the state and potential consequences of Russia's military modernisation efforts, this paper focuses on two relevant aspects of the topic: Russia's military capabilities, and how Moscow has actually used its armed forces in the conflict against Ukraine to sustain a calculated political narrative that is favourable to it. Most of the paper is based on the ongoing research conducted by a European defence research institute.

Military capabilities are defined as the ability to amass forces for regular warfare, and have been assessed on the basis of multiple independent open sources. The emphasis is on ground forces since Russia remains first and foremost a land power and ground forces represent the biggest branch of the military. Manoeuvre enhancement brigades that can take and hold terrain are of particular relevance here. Other components of the armed forces—the air force, navy, nuclear weapons—are considered support functions for ground operations.

The latest detailed figures go back to a 2013 Swedish Defence Research Agency (FOI) assessment that pre-dates slightly the irruption of the Ukraine conflict. It indicates that Russia could amass in one week at least the equivalent of one all-arms army (ie, four manoeuvre enhancement brigades, with up to 4,000 men and 150 tanks/armoured personnel carriers in each, as well as an airborne brigade, somewhat smaller in size), plus support in one strategic direction at a time. A slightly bigger force could be assembled in a month.

Russia's military assets are spread out mainly along its land borders so as to be able to address perceived threats from many directions. In the Eastern Military District, the force structure implies preparations for augmenting forces to fight a numerically superior conventional enemy. The Central Military District is the strategic conventional forces reserve for operations to support both the east and west, and it handles operations in Central Asia, a volatile region with core Russian interests.

The Southern Military District also faces challenging regions: North and South Caucasus and the Middle East. Units there must remain in a state of high readiness to achieve manning levels and deploy

modern equipment rapidly, two lasting problems for units elsewhere. Despite its significant ground formations, the Western Military District has focused on air and space defence to face the perceived adversary that is NATO, especially to counter its air power.

This FOI assessment provides a clear picture of Russia's assets for ground operations in the Western strategic direction and has become the basis for further analysis of Russia's war against Ukraine. But as is well established now, this is not the only type of organised armed forces that Russia used in its war against Ukraine, a conflict in which Moscow still denies being involved.

Whatever the label (hybrid, limited war, full-spectrum, sixth generation, new generation), Russia's method of warfare against Ukraine is not new, despite the claims of many analysts. War was rarely ever a purely military affair. It may be more accurate to conclude that Western analysts generally did not expect Russia to be able and willing to launch war against Ukraine using such a comprehensive approach while denying its involvement. This leads us to turn to Russia's non-acknowledged war (NAW).

NAW refers to two pillars of Russia's political narrative about the Ukraine crisis: it claims the conflict is a *civil war* ("it's not us"), which in turn determines its use of armed forces. The narrative aims to reduce the political cost of the war at home and abroad. Russia uses its fighting power to coerce Ukraine, but wants to be able to deny it.

This is a significant departure from the Russian concept of modern inter-state conflict, which is growing to encompass different types of armed forces available to Russia, as well as how they are combined according to their characteristics to underpin a desired political narrative.

Russia's evolving concept of inter-state conflict

An article published in 2013 on behalf of the Chief of the Russian General Staff indicated that there are both military and non-military measures in inter-state conflict. In Ukraine, Russia resorted to armed forces for three military purposes—strategic deployment, strategic deterrence and combat operations—as well as for two non-military ones—supporting the action of the opposition forces

and changing military-political leadership. The key information-operations measure integrates military and non-military measures.

The tools

Alongside official forces, Russia has three types of non-official forces: local, pro-Russian militias in the area of operation, militias organised directly from Russia (eg, Cossacks or Chechens) and private military companies. All act to support Russia's narrative, but have weak fighting power individually, both in terms of their numbers and their professionalism. Their ability to handle complex weapons and operations and to remain controlled by Moscow is uncertain.

If Russia needs reliable fighting power, as in Crimea or when the Donbas uprising faltered, it uses official forces; those are drawn from the Ministry of Defence but also from other ministries according to their characteristics. Special Forces can operate covertly and hence not disturb the "not-us" narrative. However, their numbers are small, giving them limited fighting power. Elite forces, airborne forces or the Interior Ministry's Special Designation Brigades, regular forces from the regular army or the interior troops can compensate for this. Russia's nuclear arsenal in this context serves as a strategic deterrent.

As fighting power increases, deniability declines and the narrative suffers. That is why Russian soldiers try to appear local or at least anonymous. In NAW, appearances matter. Official forces fight better than they seem, whereas non-official forces seem more promising than they fight.

The methods

When it comes to strategic deployment and deterrence, Ukraine represents one integrated Russian operation. In both Crimea and Donbas, Russia leveraged all of the aforementioned official and non-official forces to support its action, except private military companies. Both official and non-official forces acted to ensure narrative consistency. Clearly, official forces are crucial for the success of combat operations.

There are three notable differences between the cases of Crimea and Donbas. First, in Crimea, Russian official forces (Special Forces and elite forces) carried out the non-military action of the opposition forces and directly changed the military-political leadership. In Donbas, non-official forces carried out these measures to a greater extent. Second, with regards to combat operations, in Crimea the Russian forces met no organised military resistance. In Donbas, however, Russian official and non-official forces had to perform the combat operations. Third, when considering information operations, in Crimea Russia dropped the "not us" narrative after the illegal annexation. In Donbas, on the other hand, Russia continues to uphold the narrative.

> *Official forces fight better than they seem, where as non-official forces seem more promising than they fight.*

NAW requires both official and non-official forces and the ability to combine their features to balance fighting power and maintain narrative consistency. It also requires credible escalation dominance (including the potential use of nuclear weapons) to be effective. NAW is less costly than all-out regular war, but also less efficient. Ukraine's decision to resist, with imperfect means, shows the limits of NAW.

Four conclusions can be drawn: first, Russia is able and willing to use armed forces to obtain what it wants and is likely to do so again. Second, NAW is one possible approach to do so, but not the only one. Third, Russia is likely to use its current advantages vis-à-vis the West: the willingness to fight and mobilise the country's resources for large-scale war, and at least five years' worth of preparations for large-scale operations. Finally, Russian propaganda already works to influence Western public opinion, such as the broadcasts of RT appealing to war-weary US citizens.

The Transition Phase in the North Caucasus Insurgency: From the Caucasus Emirate to ISIL

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The activities of the Caucasus Emirate have plummeted in the last two years as a result of Russia's successful counter-insurgency campaign and the growing flow of jihadist fighters travelling from the North Caucasus to Syria and Iraq.

The main objective of the counter-insurgency campaign was to secure the western part of the North Caucasus in time for the Sochi Winter Olympics. Between 2012 and 2014, Russian security forces were able to infiltrate insurgent cells and eliminate the majority of the emirate's operational leaders in Chechnya (Doku Umarov, Supyan Abdullayev, Huseyn and Muslim Gakayev); Kabardino-Balkaria (Alim Zankishiyev, Khasanbi Fakov, and Tengiz Guketlov); and Dagestan, the main hub of the insurgency where the most recent leader of the group, Aliashab Kebekov was killed. By 2014, the number of insurgent attacks in the region had decreased significantly, when compared to 2010-2011. During that same time period, the drop in casualties among security forces had also fallen dramatically (by roughly 80%) and the number of casualties among militants decreased in the last two years by approximately 40%. In Dagestan there was a 50% decrease in casualties, comparable to the region in general. In the case of Chechnya, seen as the central command of the insurgency, insurgent activities have consistently decreased since the proclamation of the Caucasus Emirate in 2007 (over a 70% decrease in casualties). These numbers underscore the success of the counter-insurgency campaign and the movement's lack of recruitment capacity and other resources.

Notwithstanding the insurgency's limited capacity the Ukrainian crisis has altered Moscow's influence and capacity in the North Caucasus. Since the beginning of the Ukraine crisis, Russian military forces have been transferred to the Ukrainian border. There is also reporting to the effect that pro-Russian Chechen military groups and Russian forces previously fighting in the North Caucasus are now involved in Donbas. Furthermore, the Western sanctions and the drop in oil prices have jeopardised Moscow's ability to maintain its subsidies to the North Caucasus, feeding discontent among local leaders.

Fortunately for Moscow, the call to jihad in Syria and in Iraq has weakened the insurgency's ability to take advantage of the Ukraine

crisis. The emirate struggles to attract new fighters who are now seeking military training with ISIL in Syria, either as a way to avoid the brutal Russian counter-insurgency or to wage what they consider a "purer" jihad. Furthermore, the schism between Al-Qaeda (Al Nusrah Front) and ISIL has reverberated in the North Caucasus, weakening the emirate's position. From late 2014 to the spring of 2015, several of its field commanders and rebels have broken their loyalty oath to the emirate and pledged allegiance to ISIL. Although there has not been an outbreak of violence between ISIL factions and the Caucasus Emirate in the North Caucasus, several propaganda and theological debates have spawned insurgent cells in the region and amongst Caucasians fighters in Syria.

It is possible that the recent death of Aliashab Kebekov, the emirate's leader, could bring about a take-over of the insurgency by a younger and more extremist cohort of fighters. These local supporters of a global jihad seek to overthrow the Caucasus Emirate and create a regional ISIL-inspired movement. If the transition of power is completed and current Russian foreign fighters decide to return to the North Caucasus at the end of the Syrian civil war, Moscow could face a formidable opponent.

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Whether based on a lack of capacity or unwillingness to alienate the local population, the emirate's recent leadership (Doku Umarov and Aliashab Kebekov) has not been favourable to suicide bombings and other forms of terrorist attacks aimed at civilians, preferring to focus instead on military targets. Were ISIL militants to take control of the insurgency, one can expect to see a return to suicide bombings conducted outside of the North Caucasus as well within the region itself, aimed at civilian targets, in an effort to provoke a sectarian conflict between moderate Sufis and ISIL-inspired extremists. If this assumption is correct, then one can expect the North Caucasus to rapidly become the theatre of another guerilla war that could claim important civilian casualties. Moscow could then be confronted with instability on two fronts: eastern Ukraine and the North Caucasus/Pankisi Gorge, while struggling to come to grips with a deteriorating economy. The

conditions would thus be set to feed the insurgency for many years to come.

US-Russian Relations: A Twenty-Year Crisis?

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US-Russian relations have been on a roller coaster ever since the USSR collapsed, with cycles of political booms and busts over the past 23 years. But today they have reached their lowest point since before Mikhail Gorbachev came to power in 1985. The "reset" of the first term of the US president, Barak Obama, was already in trouble before Vladimir Putin formally returned to the Kremlin in 2012, and the onset of the crisis in Ukraine effectively ended any hopes of re-establishing a more productive relationship. Today, Washington is coming to terms with the new Russian reality: a country whose leadership—once again—defines its raison d'être through opposition to a United States which it depicts as being out to weaken and destroy Russia. Indeed, the Kremlin believes that it is at war with the United States, while the White House struggles to find an appropriate response to Moscow's jettisoning of the post-Cold War European security order. Disagreements over Russia's actions in Ukraine have spilled over into every other area of US-Russian relations, whereas previously it was possible to compartmentalise the relationship into areas of cooperation and areas of competition and divergence. So far, Russia continues to seize the initiative in the Ukraine crisis and the West remains largely reactive, given the asymmetry in the stakes. After all, the Kremlin defines Ukraine as an existential issue, whereas Ukraine sits lower on the threat scale for the United States and most of its allies.

The current downturn in relations began in 2011. It is then that Putin announced that he was returning to the Kremlin; demonstrators took to the streets of Moscow protesting the job switch with Dmitry Medvedev; Putin blamed US State Secretary Hillary Clinton for paying the demonstrators; and she in turn accused him of presiding over flawed elections. Nevertheless, the White House made repeated attempts to re-engage with the Kremlin in 2012 and 2103, but received little encouragement. Then NSA leaker Edward Snowden landed in Moscow, Putin rebuffed repeated US requests to extradite him and ultimately granted him political asylum. Obama cancelled a bilateral summit with Putin, declared a "pause" in US-Russian relations and ties further deteriorated. Despite the tension, in 2013 and 2014 Moscow and Washington were able to cooperate in attempting to rid Syria of its chemical weapons and continued to work together

on an Iranian nuclear deal within the P5+1 format, involving the five members of the UN Security Council, Germany and Iran.

Once Washington took sides in the Ukraine crisis and backed the pro-Europe Maidan movement, bilateral ties collapsed. There are no high-level US-Russian contacts, except for occasional meetings between the respective foreign ministers, John Kerry and Sergei Lavrov, and increasingly infrequent phone conversations between the two presidents. The activities of the Bilateral Presidential Commission have been suspended, military cooperation virtually ceased and a variety of other channels of interaction have been shut down. The main feature of US policy towards Russia since the Crimean annexation has been a sanctions policy, which has gradually intensified as Russia has escalated the conflict. But the United States has also delegated much of the diplomacy of the Ukraine crisis to Angela Merkel, who has, so far, managed to maintain European Union (EU) unity on sanctions and has also made it clear that she opposes the United States sending lethal defensive weapons to Ukraine. It is unlikely that the White House will approve such weapons exports. So far, transatlantic unity on dealing with Russia has been maintained, a feat in itself, and surely not what Putin expected when Russia annexed Crimea and launched the hybrid war in the Donbas region of eastern Ukraine.

> *Washington faces the prospect of a long period of adversarial relations with Russia that could last beyond Vladimir Putin's term in office.*

Indeed, in Putin's world-view, the United States is the main enemy, out to weaken Russia and its leader and refusing to recognise the legitimacy of Russian interests in the post-Soviet space and elsewhere. Anti-Americanism is an essential feature of Putin's domestic and foreign policy. Domestically, blaming the US and its "fifth-columnists" inside Russia for the country's economic woes has so far worked quite well. Presenting Russia as the leader of the "conservative internationale" fighting the decadent West has resonated both domestically and abroad. The Kremlin is also skilfully exploiting differences within the EU, on the one hand, and between the United States (which it believes is in decline) and Europe, on the other, to weaken both the transatlantic alliance and the EU, as it continues to destabilise Ukraine. Whereas Russia used to crave treatment as an equal by the United States to validate its role as a great power, Putin appears to have jettisoned that quest for the pursuit of closer ties with China and other states that will,

he hopes, form the basis of a new world order which the West can no longer dominate. Both rhetorically and in practise, there is little room in this world-view for a more cooperative relationship with a country which, according to Putin, supports "neo-fascists" in Ukraine and around the world.

Given the fact that the United States and Russia are once again antagonists, the Ukraine crisis, while it has until now largely unified the West, could also serve to divide it the longer it lasts. It appears that Russia is not interested in a solution to the Ukraine crisis that would involve the restoration of Ukraine's territorial integrity. In the best-case scenario, if a frozen conflict solidifies in the Donbas region and the separatists do not take more territory, then the pressure in some European countries to lift the sanctions will grow, while the United States will be unlikely to lift any sanctions, leading to greater inter-alliance friction. More aggressive Russian and separatist moves, however, might serve to maintain alliance solidarity. The longer the conflict continues, the more challenging it will be for the United States and Russia to work on a range of multilateral issues where they do share common interests. The so-called Islamic State is a compelling example of a common threat where cooperation has become necessary. But the mistrust caused by Russia's actions and rhetoric in Ukraine makes that very difficult.

The United States is coming to terms with the reality that Russia does not seek integration with the West and that the Russian idea of what a productive US-Russian relationship would look like is radically different from the US idea. Washington faces the prospect of a long period of adversarial relations with Russia that could last beyond Vladimir Putin's term in office.

Russia's Relations with the EU and Consequences for NATO

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Fissures in EU-Russia relations were visible well before the events in Ukraine of 2014 as conflicting values and interests narrowed the space for potential cooperation. The EU is not a geopolitical actor but Russia has chosen to see it as one. Prior to the Ukraine crisis, the EU had sought to build its relationship with Russia around trade and a range of "soft" issues, including customs, environment, science and technical standards, with the shared objective of creating a common economic space from Lisbon to Vladivostok. However, progress towards this goal was very limited.

The Partnership for Modernisation agreed between the EU and Russia at the 2010 Rostov Summit had produced painfully thin results by the end of 2013. Negotiations begun in 2008 on a new Partnership and Cooperation Agreement between the EU and Russia were also bogged down with neither side seeking a speedy resolution. This was hardly surprising given the increasing frictions between the EU and Russia over the Eastern Partnership—the EU policy initiative designed to advance its political association and economic integration with Ukraine, Moldova, Georgia, Belarus, Azerbaijan and Armenia following the admittance of other East European countries to the EU itself. Another source of friction was the discomfort in many parts of Europe over Russia's efforts to capitalise politically on its role as the single biggest exporter of oil and gas to the EU; Moscow was incensed by the European Commission's decision to conduct an anti-trust investigation into Gazprom's business in the EU.

Russia has always preferred dealing with the EU through bilateral relationships with member countries for reasons of speed and effectiveness. This has offered fertile ground for splitting EU countries on the issue of policy towards Russia. Moscow's key European interlocutors in recent years have been France, Germany and Italy. Putin's influence in Europe reached its peak in the run-up to the invasion of Iraq in 2003 when he developed excellent personal relations with Berlusconi, Chirac and Schröder. He was then able to play on the image of a young reformer wanting to forge relations with Europe but unable to find a common language with the US. The EU was good, NATO was bad. This resonated with anti-American circles in Europe. It was an important opportunity for Moscow to try to weaken US influence in Europe and its leading

role in NATO. At the same time, Russia was beginning to sense the potential for using its energy resources as a source of power projection both in Europe and globally.

The EU's limp reaction to Russia's invasion of Georgia in 2008 reflected a general desire not to rock the boat unnecessarily with Moscow and to regard Russia's demonstration of resolve as a blip. This was borne of a general view that the Russian leadership was generally rational in its foreign policy actions and was not seeking confrontation with the West. As late as 2010, Poland "re-set" its relations with Moscow after several years of acrimony and followed a German lead to conduct relations based on dialogue and a readiness to live with Russia's faults in the belief that these would be mitigated over time.

> *... Putin oversaw a sharp policy shift away from seeking comfortable relations with EU to defining Russia and its people in opposition to the West.*

However, the space for managing a relationship with Moscow on this basis was fast disappearing after Putin's return to the Kremlin in 2012. As President, Putin oversaw a sharp policy shift away from seeking comfortable relations with EU to defining Russia and its people in opposition to the West. From an historical perspective, this was a familiar refrain; the purity and distinctiveness of Russian values set against the decadence of the West. Equally consistent with historical experience was Russia's re-assertion of interests and influence across territories that it believed belonged to its exclusive "zone of privileged interests". This explains at least in part why Moscow viewed Ukraine's proposed signing of the Association Agreement with the EU as a strategic threat to Russia and exerted such pressure to prevent Yanukovych from doing so. Yet it is a remarkable paradox that the EU, despite its lack of geopolitical animus, provoked a geopolitical response from Moscow.

Russia underestimated the reaction from EU countries to its behaviour in Ukraine, and in particular from Germany, its most important European interlocutor. Successive German governments had invested enormous effort in building a close relationship between the two countries and guarding against the isolation of Russia. As a country committed to upholding post-Cold War security arrangements, Germany is acutely sensitive to changes in the security situation on its periphery. Chancellor Merkel has pursued a firm line based on principle and condemned Russian

actions as inconsistent with international norms. She has single-handedly driven Europe's response to events in Ukraine, including its sanctions policy. With the US largely absent from efforts to resolve the crisis, she has also led efforts to seek a political resolution between Kyiv and the separatists in Donbas.

EU member states do not currently have a vision of how to manage relations with Moscow. Some are starting to think about how to develop longer-term policies towards Russia. Aside from sanctions measures, the EU has suspended talks with Russia on a visa-free arrangement. It is clear that for the foreseeable future and barring any leadership change in Moscow, the relationship is going to be cold, unproductive, and adversarial in certain areas, and will offer minimal opportunities for successful mutual cooperation. This will probably last as long as Putin is in power. Russia will push on weak links in the EU, such as Greece and Hungary, but the basic consensus is likely to remain.

For NATO, the consequences of this situation are two-fold:

- European unity has helped cement a consensus in NATO on steps that need to be taken to reactivate collective defence—of the 28 members of NATO, 21 are EU members;

- NATO member states are not going to enter into any form of "Concert of Europe"-style negotiations to re-format European security arrangements as Russia has been seeking.

The shift from the ambitious post-Cold War vision of "cooperative security" in Europe to a stable model of "managed differences" is far from complete. The real tests of European and transatlantic unity have yet to come.

Annex

Academic Outreach at CSIS

Intelligence in a shifting world

It has become a truism to say that the world today is changing at an ever faster pace. Analysts, commentators, researchers and citizens from all backgrounds—in and outside government—may well recognise the value of this cliché, but most are only beginning to appreciate the very tangible implications of what otherwise remains an abstract statement.

The global security environment, which refers to the various threats to geopolitical, regional and national stability and prosperity, has changed profoundly since the fall of Communism, marking the end of a bipolar world organised around the ambitions of, and military tensions between, the United States and the former USSR. Quickly dispelling the tempting end of history theory of the 1990s, the 2001 terrorist attacks on the United States, as well as subsequent events of a related nature in different countries, have since further affected our understanding of security.

Globalisation, the rapid development of technology and the associated sophistication of information and communications have influenced the work and nature of governments, including intelligence services. In addition to traditional state-to-state conflict, there now exist a wide array of security challenges that cross national boundaries, involve non-state actors and sometimes even non-human factors. Those range from terrorism, illicit networks and global diseases to energy security, international competition for resources, and the security consequences of a deteriorating natural environment globally. The elements of national and global security have therefore grown more complex and increasingly interdependent.

What we do

It is to understand those current and emerging issues that CSIS launched, in September 2008, its academic outreach program. By drawing regularly on knowledge from experts and taking a multidisciplinary, collaborative approach in doing so, the Service plays an active role in fostering a contextual understanding of security issues for the benefit of its own experts, as well as the

researchers and specialists we engage. Our activities aim to shed light on current security issues, to develop a long-term view of various security trends and problems, to challenge our own assumptions and cultural bias, as well as to sharpen our research and analytical capacities.
To do so, we aim to:

- Tap into networks of experts from various disciplines and sectors, including government, think-tanks, research institutes, universities, private business and non-governmental organisations (NGOs) in Canada and abroad. Where those networks do not exist, we may create them in partnership with various organisations;

- Stimulate the study of issues related to Canadian security and the country's security and intelligence apparatus, while contributing to an informed public discussion about the history, function and future of intelligence in Canada.

The Service's academic outreach program resorts to a number of vehicles. It supports, designs, plans and/or hosts several activities, including conferences, seminars, presentations and round-table discussions. It also contributes actively to the development of the Global Futures Forum, a multinational security and intelligence community which it has supported since 2005.

While the academic outreach program does not take positions on particular issues, the results of some of its activities are released on the CSIS web site (http://www.csis-scrs.gc.ca). By publicising the ideas emerging from its activities, the program seeks to stimulate debate and encourage the flow of views and perspectives between the Service, organisations and individual thinkers.